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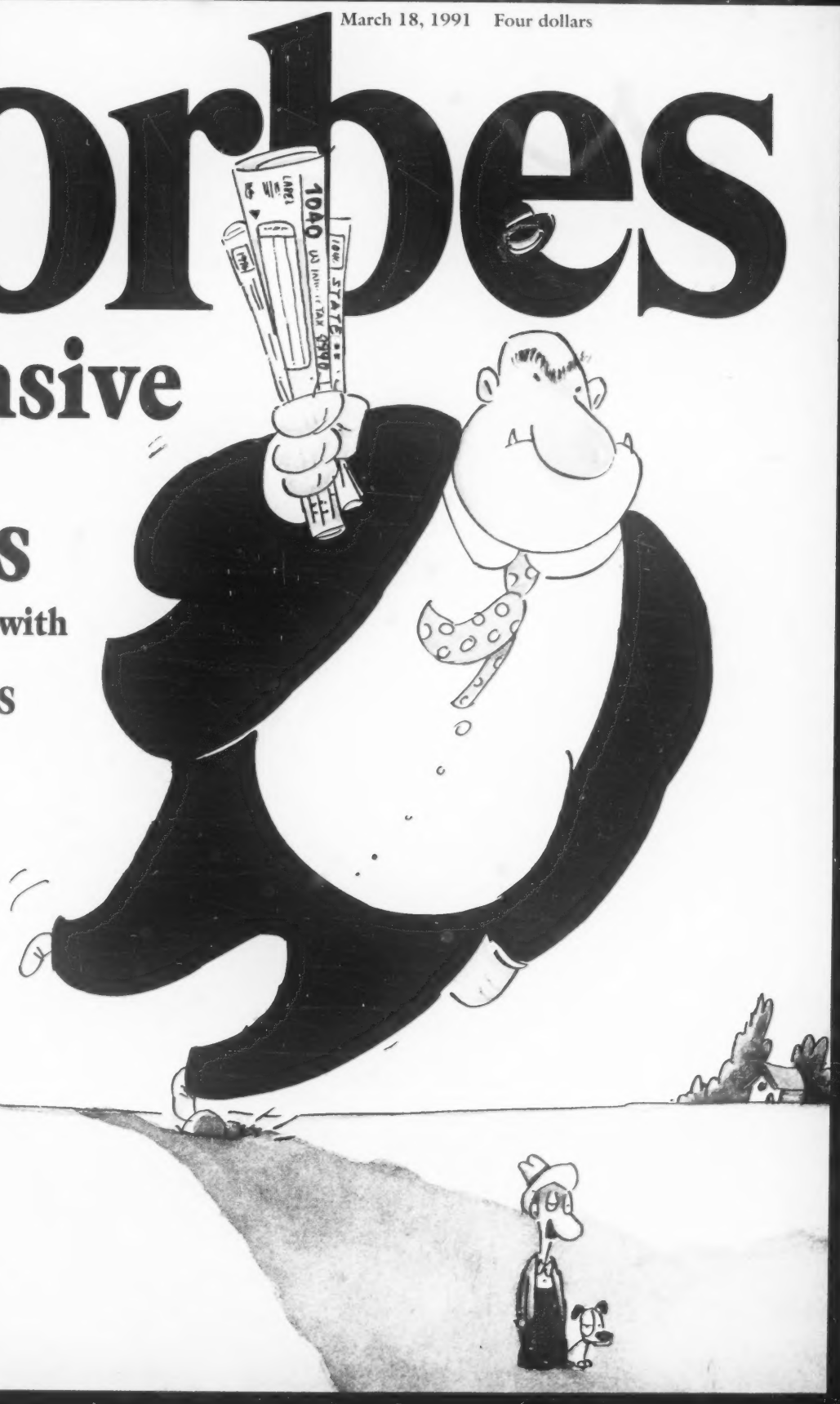

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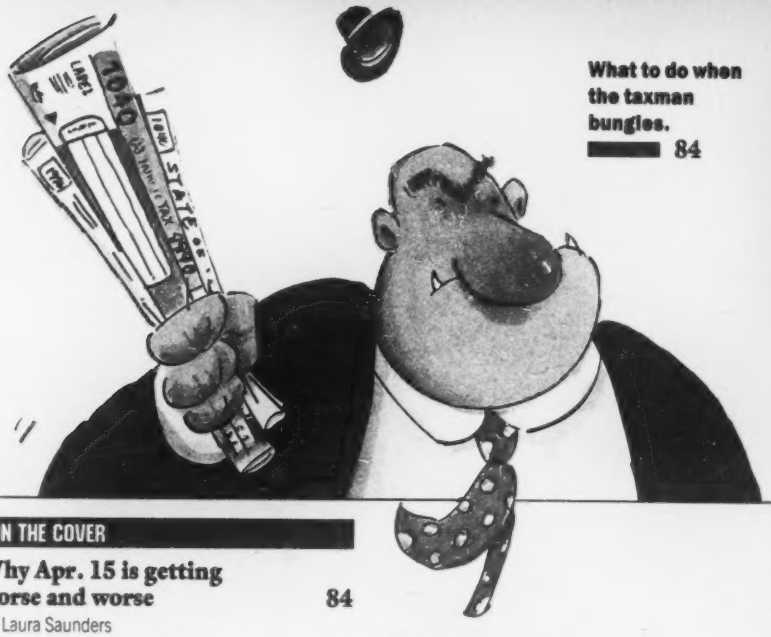

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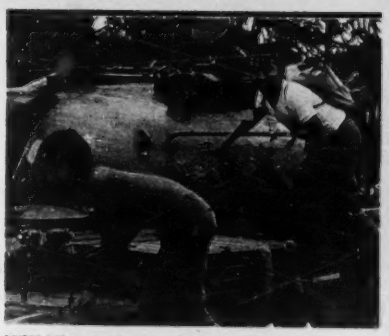

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Cover illustration by Patrick McDonnell

Forbes

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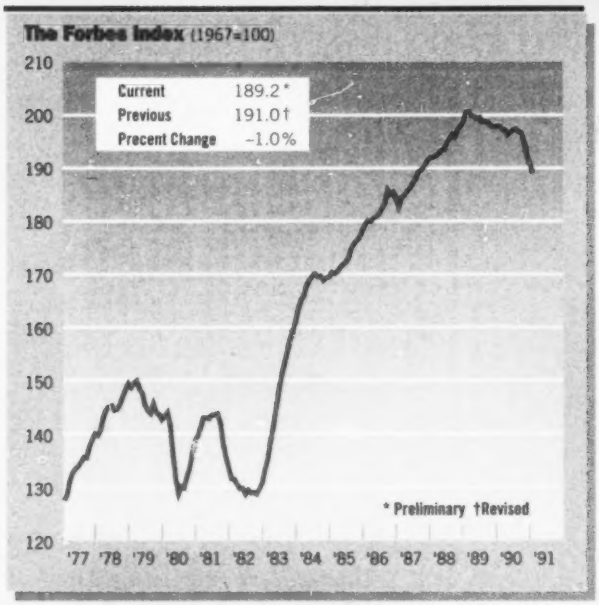
BY TIMOTHY DODMAN



Consumers are spending, but not on big-ticket items. January retail sales were off 0.9% from the downwardly revised December result. Sales weakness was concentrated in the auto sector, off 4.4%. Take away the auto component and the remaining retail sales were unchanged. Some retailers have managed to turn in strong results.

Elsewhere in the economy, industrial production suffered a 0.5% drop in January. Housing starts fell 6.6% to their lowest point since February 1982. It remains to be seen if lower interest rates will revive this sector.

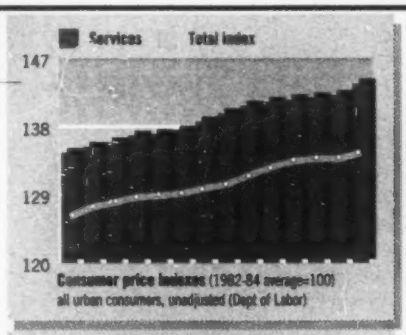
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.0%
Auto sales year to date vs 1990[1]	Ward's Automotive	-23.7%
Index of leading indicators Dec vs Nov	Dept of Commerce	0.1%
Trade balance 12 months ended Dec1990	Dept of Commerce	-$100 bil
All-commodity producer price index Dec vs Nov[2]	Dept of Labor	0.0%
GNP 4th quarter vs. 3rd—annualized growth	Dept of Commerce	-2.1%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	9.0%

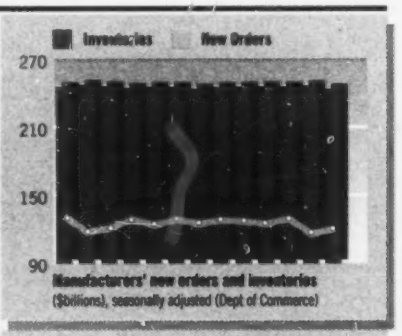
[1] U.S.-based manufacturers, excludes imports, as of 2/20/91.
[2] Wholesale goods. [3] December 1990.

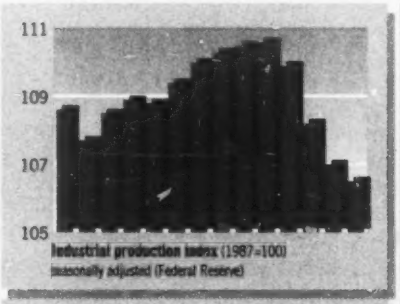
Index components

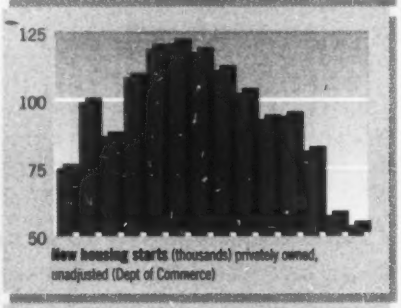
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

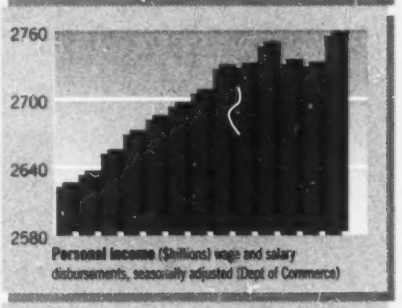
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

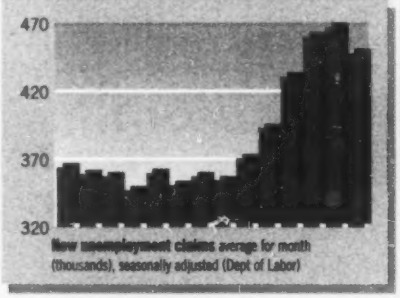


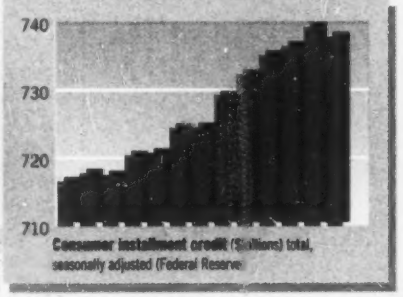












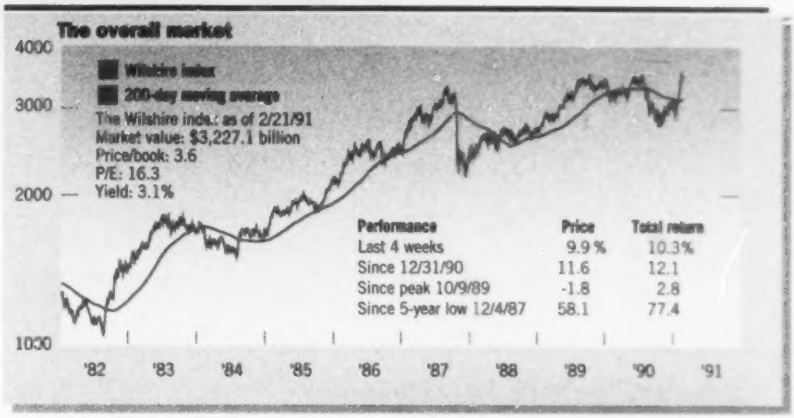
BY ERIC S. HARDY

In just the past four weeks, the Wilshire index had a total return (including dividends) of 10.3%. That's enough for David Elias, an investment adviser in Buffalo, to advise caution. Elias thinks that uncertainty over the timing of the expected economic recovery and the prospects for disappointing first-quarter earnings could set off a correction. "We have been taking at least a third of our money off of the table on any stock with a 25% profit," he says.

In particular, Elias recommends avoiding oil stocks and basic industries such as steel and aluminum. "If you want to participate in a cyclical stock, you want to own a growth cyclical like Kimberly-Clark, which could come in with double-digit earnings in the next two years," he says. As for noncyclicals, Elias favors Philip Morris, Schering-Plough and Wal-Mart.

Even though overall first-quarter earnings may be soft, there will be some individual surprises. For example, the Wall Street analysts tracked by the Institutional Brokers Estimate System were predicting that Hewlett-Packard would earn 70 cents a share in the December quarter. But the Palo Alto, Calif. computer company reported 83 cents; its stock climbed 24% between Feb. 7 and Feb. 21.

In the last two weeks the Wilshire index gained 2.4%; the Dow, 2.9%.



The best performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Square D	75	51%	15	7,833	2.2
Howlett-Packard	47¼	24	15	14,763	2.4
KLM Royal Dutch Airlines	14⅞	20	10	968	1.8
Reebok Intl	19⅞	20	13	9,804	2.8
Amgen	95½	19	NM	13,272	1.8

The worst performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Laidlaw	16¾	-14%	16	14,285	2.8
Turner Broadcast Sys	13½	-12	NM	420	1.4
Metro Mobile CTS	12¾	-12	NM	1,224	1.6
Trinova	21½	-12	14	935	1.6
Oracle Systems	9	-11	22	14,698	0.9

Closeup on the market

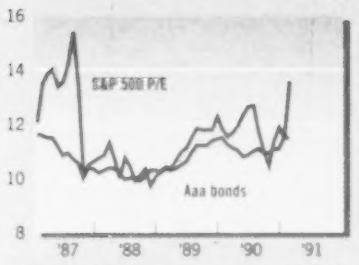
Index or investment	Price or rate	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,460.0	2.4%
Wilshire index 6,000 stocks, equal weighted	20.6	5.2
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,891.8	2.9
S&P 500 Capitalization weighted cross section, major stocks	365.0	2.4
NYSE Capitalization weighted, all listed common stocks	199.3	2.3
Amex Capitalization weighted total return: stocks, warrants	341.8	2.1
Nasdaq Capitalization weighted, all issues except warrants	446.4	2.6
Amex international market index Capitalization weighted, 50 largest ADRs	325.63	2.6
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	892.20	3.9%
Institutional[5] Approximately 200 stocks with high institutional ownership	115.91	3.4
Individual[5] Approximately 200 stocks with low institutional ownership	95.81	2.4
Russell 200 index 2000 small market value stocks, capitalization weighted	156.36	3.5
Gold[6] (composite quote of 6 major dealers)	$362.50	-1.4
Yen[4] (per $U.S.)	131.34	2.1
Commodity index[4] (CRB futures index, 1967=100)	211.21	-0.7
Oil[3] (W Texas Intermediate)	$18.45	-13.0
T bills[6] (90 days)	5.93%	3.0 basis points[7]
Broker loan rate[6]	9.00%	unchanged

Note: All data for periods ending 2/21/91. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since the index was created. Stocks listed above have market capitalization of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume during the preceding 3 months. [4]Morgan Stanley Capital international perspective. [5]For period ending 2/22/91. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

WHAT THE ANALYSTS THINK

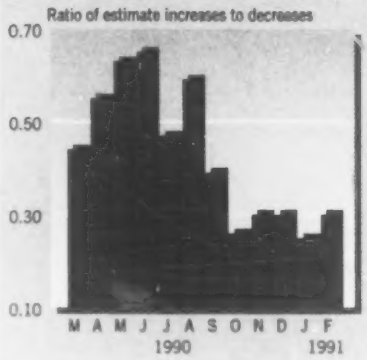
BY STEVEN RAMOS

S&P 500 P/E* vs. Aaa bonds†



*S&P 500 P/E is the recent price of the S&P 500 divided by estimated earnings over the next 12 months. †Projected price-to-coupon ratio for Moody's Aaa corporate bond index.

S&P 500 companies



Forecasting the S&P 500

Year	Estimated P/E	% change current estimates vs. 3 months ago	expected year-to-year EPS growth
1990[1]	15.2	NA	-5%
1990	15.3	-6%	-2
1991	13.5	-7	13

1991 estimates for major industry groups

Rising estimates	Falling estimates
tobacco	airlines
cosmetics	automobiles
drugs	machine tools
beverages, soft drinks	leisure time
medical prods, equip	heavy trucks, parts

"People are ignoring the earnings forecasts for 1991—their thinking is that 1991 is not going to be any better than 1990, and so they're looking ahead to the recovery of 1992," says Richard Pucci, database director for the Institutional Brokers Estimate System. In January the IBES index of estimate revisions on the S&P 500 hit its lowest level since January of 1985 as analysts cut four estimates for every one that they raised. But Pucci expects the index to climb in the next few months. That's because with each passing month, 1992 estimates will carry increased weight in the index, and analysts are expecting an economic rebound in 1992.

The graph on the top left shows the relationship between the estimated P/E on the S&P 500 and the projected price-to-coupon ratio for Moody's Aaa corporate bond index. Pucci points out that downward corrections often occur whenever the P/E ratio for stocks, as measured by the S&P 500 index against expected earnings, gets more than 15% above the corresponding ratio for bonds. Right now it is 18% above.

Who's hot

Greatest increase in estimates over the past three months

Company/industry	1990 EPS	1991 estimate: recent	1991 estimate: 3-month change	P/E	3-month price change	Reason
Commodore Intl/computers	$0.05	$1.44	NM	11	97%	Strong European sales of Amiga computer
Sysco Systems/computers	0.99	2.38	31%	24	60	Increased demand for high-end products
Tektronix/electronic systems	-0.86	1.56	26	13	14	Benefits from corporate restructuring
AST Research/computers	2.38	3.58	23	13	77	Increased demand for 486-based PCs and lower costs
Atlantic Southeast Air/airlines	2.18	2.71	17	11	95	Benefits from the demise of Eastern Air Lines

Who's not

Greatest decrease in estimates over the past three months

Company/industry	1990 EPS	1991 estimate: recent	1991 estimate: 3-month change	P/E	3-month price change	Reason
GlenFed/savings & loan	$3.38	$0.92	-61%	6	-30%	Soft real estate market
CBS/broadcasting	3.55	4.37	-57	36	-4	Heavy losses from major league baseball contract
Southdown/building materials	-1.33	0.72	-53	20	10	Slow demand for construction products
Shawmut Natl/banking	-1.84	0.59	-52	7	-37	Increased non performing loans
Louisiana Pacific/forest prods	2.42	1.80	-45	17	17	Declining orders for wood products

Note: Companies listed have a market capitalization of $100 million or more. Earnings projections are for Wall Strreet consensus estimates data from 3,000 security analysts compiled by the Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan Investment Services. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors. [1] Actual. NA: Not available. NM: Not meaningful.